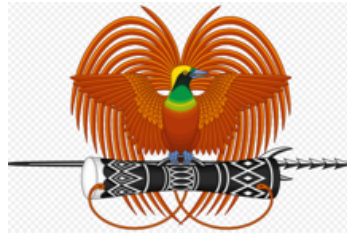


Revenue, tax and economic development in Bougainville: Achieving fiscal self reliance (FSR)



Catherine Welbia, Economic Policy Specialist, Department of Economic Development, ABG

James Lloyd, Economic Development Adviser, Papua New Guinea Governance Facility

Fiscal policy.....



- Injections**
- Investment
 - **Government spending**
 - Exports

Every Kina taken out in tax cannot be invested by business

Withdrawals

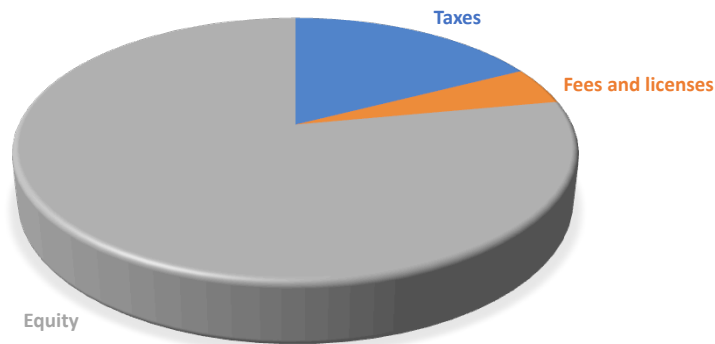
- Savings
- Imports
- **Taxation**



Every Kina taken out in tax needs to be spent effectively by Government to result in injection (additionality)

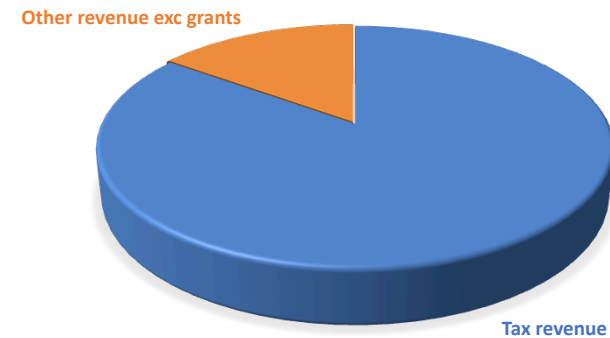
Sources of revenue can differ by jurisdiction- but not for achieving *FSR*

SAUDI ARABIA SOURCES OF REVENUE 2016*



- ✓ Very low tax rates but high levels of compliance
- ✓ High levels of equity in profitable business (ARAMCO, SABIC, Ma'aden)
- ✓ Less diversified revenue base, high levels of vulnerability

PNG SOURCES OF REVENUE 2016**

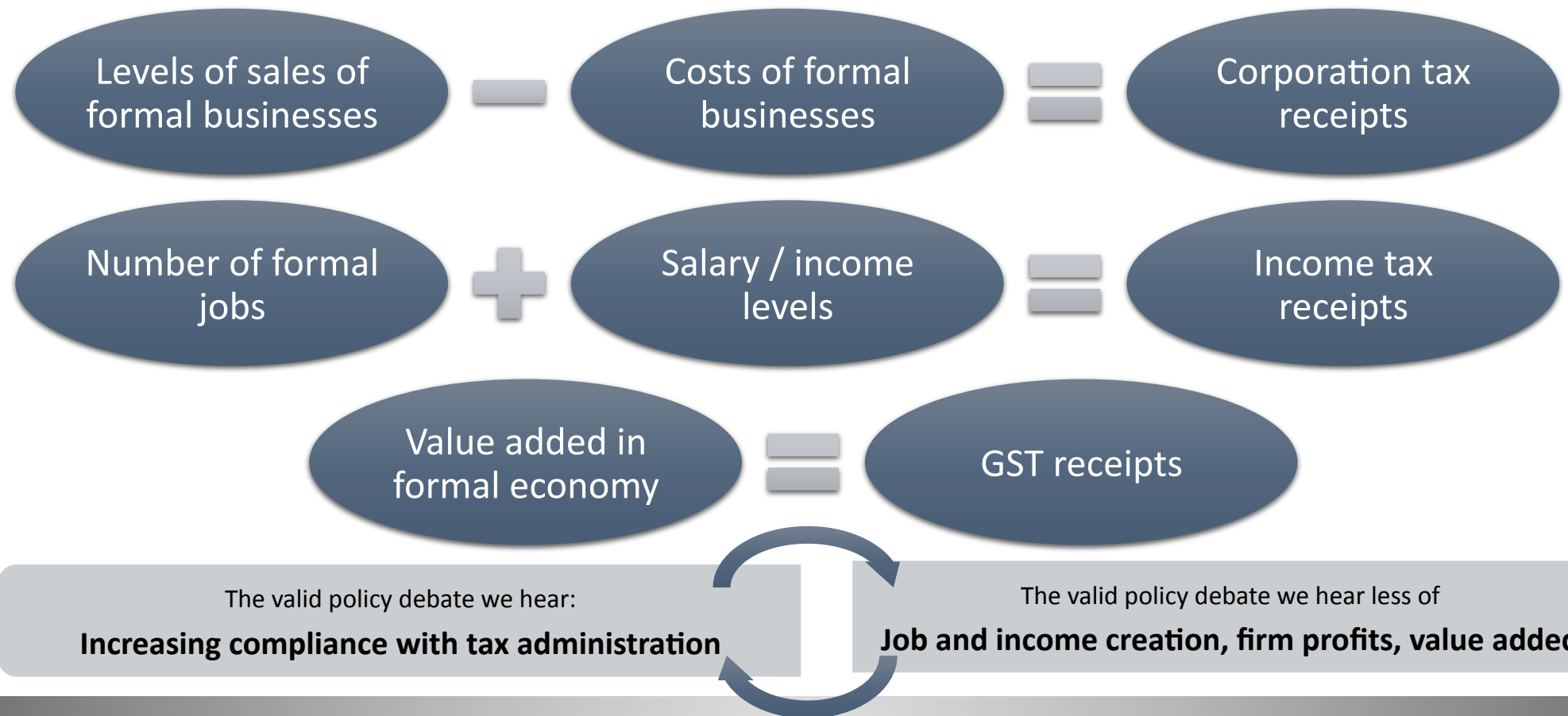


- ✓ Relatively high tax rates but low levels of compliance
- ✓ Equity in resource sector projects and SoE
- ✓ More diversified revenue base and lower vulnerability, but still vulnerable

* Kingdom of Saudi Arabia, 2017 Budget, Ministry of Finance

** GoPNG, 2017 National Budget, Volume 1, Economic and Development Policies

There are three sets of determinants of major tax sources in Bougainville



The Bougainvillean economy: Current state

Small open economy
which is export
orientated

Vulnerable to
exogenous shocks

Largely informal
economy

Previously productive
assets remain
unproductive

Large numbers of
economically inactive

Low levels of private
investment and
innovation

For *FSR* to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues

The Bougainvillian economy: Short term prospects to 2020

The volume of exports will grow and slowly diversify

Prices of exported commodities will remain stable*

Compliance will remain a challenge in the absence of reform

Ongoing challenges in bringing unproductive assets into production will remain

There will be a small increase in the number economically active

Private investment and innovation will remain low due to a challenging investment climate

For *FSR* to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues

*Commodity Markets Outlook, Quarterly Report, April 2017- www.worldbank.org/commodities

The Bougainvillian economy: Long term prospects to 2030

Assuming the investment climate improves significantly.....

Increased private investment and diversification of the economy

Jobs created in manufacturing and tourism

The economy is export driven with Bougainville's products accessing increasingly higher value markets

Assuming the investment climate does not improve.....

Large levels of informality and low levels of investment

Economy remains vulnerable with low levels of productivity

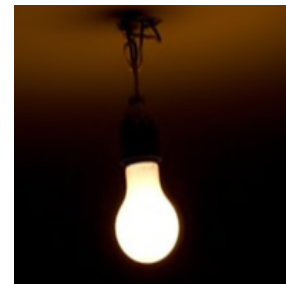
Low numbers of formal private sector jobs

For *FSR* to be achieved we must work hard to increase value added, company profits and job creation while also working on compliance issues

Looking at some examples of how to influence the determinants....



- The **investment climate** is risky and costly
- **So many constraints**, but... **Property rights** are insecure (plantations, BCL)



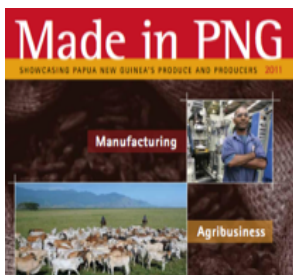
- **Blackouts** increase **company costs** and **reduce profits**
- Blackouts **inhibit investment**



- **Tax** administration and rates **influences investment**
- We need **reform** to improve our investment climate (compliance) **and** to achieve **FSR**



- **Export orientated** opportunity
- Increase the number of B'villeans that are economically active in export value chains

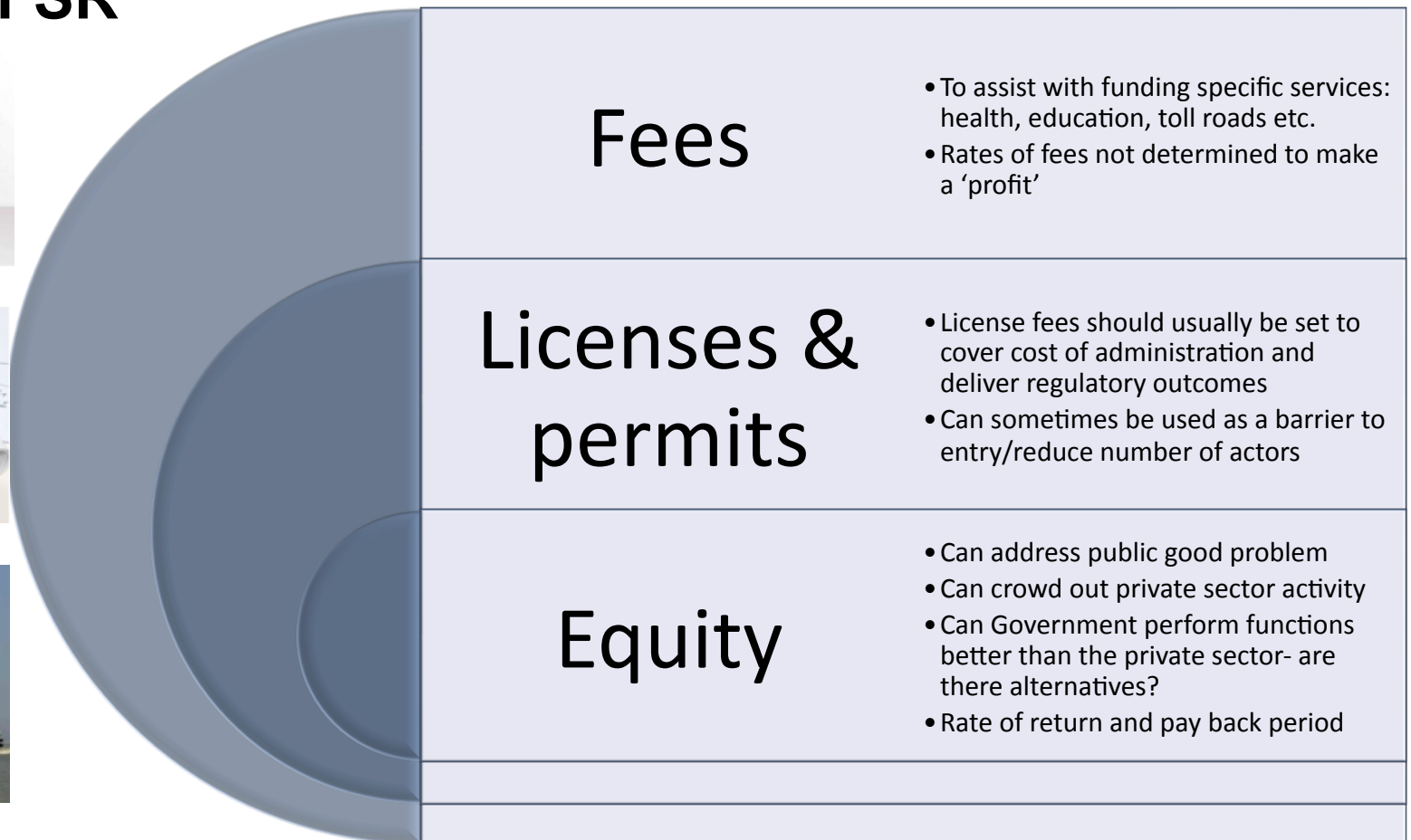


- How to increase **value added??**
- Inward investment is low but can **access new markets** and bring **new technology**



- **Highly paid jobs** will contribute to income tax revenue
- Investment & innovation in **manufacturing/services/mining** for higher paid jobs

The other sources of revenue to the ABG that do not contribute to FSR





Creating a fiscal environment and investment climate that is suitable for our context and aspirations...

